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Dear Mr. Chairman:

On September 3, 1969, the General Accounting Office transmitted to the Senate Committee on Finance its report on a review of Medicare payments made to The Associated Physicians of the Cook County Hospital (the Association) in Chicago, Illinois. That review was made in accordance with a request from the Committee dated April 28, 1969, and the matters discussed in the report were among the subjects covered in the Committee hearings in July 1969 at which representatives of our Office testified.

During those hearings, officials of the Social Security Administration (Social Security) advised the Committee that they would seek recovery for any improper Medicare payments made to the Association by the Illinois Medical Service (Blue Shield) for the services of supervisory and teaching physicians.

Subsequent to the hearings, Social Security, Blue Shield, and Association officials met several times and reviewed the 75 Medicare beneficiary cases discussed in our report. As a result of these actions, Social Security and Blue Shield concluded that, of the \$10,727 paid to the Association in those 75 cases, only \$2,593 should have been paid and that \$8,134 had been overpaid.

In December 1969, Social Security, by applying statistical methods to the 75 cases, projected the amount of the overpayment for all the cases for which payment had been made and estimated that, of the \$1.6 million paid to the Association, the total overpayment could have been as much as \$1,328,000. Recovery action, however, had not been completed at that time because the Association had not accepted the conclusion of Social Security officials that overpayments had been made. Social Security and Blue Shield officials held a meeting with officials of the Association on January 28, 1970, to further discuss the amount of the projected overpayment and arrangements for its repayment, however, no final agreements were reached.

Because any future recovery could be made from monies held by the Association, on December 19, 1969, Mr. Jay D. Constantine, professional staff member of the Committee, requested us to report to the Committee on the financial position of the Association as of November 30, 1969.

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This information was to supplement the financial data, as of April 30, 1969, that we included in our previous report to the Committee. Specifically, we were asked:

1. To determine the amount of the liquid assets (cash and securities) of the Association at November 30, 1969, or if such information was readily available, at a later date.
2. To determine the amount and description of any accrued liabilities or other commitments of the Association at November 30, 1969, which may be applied against its available liquid assets.
3. To analyze the nature and general purpose of the Association's expenditures after April 30, 1969.

In addition, we were requested to determine what actions had been taken by officials of Social Security, Blue Shield, or the Association to conserve the Association's assets pending their reaching a final agreement on any recovery action.

We obtained the following information from the financial statements and records of the Association. The statements had not been audited by the firm of independent accountants employed annually by the Association for this purpose. As agreed upon with Mr. Constantine, we did not subject the data to a detailed audit, but we verified the total amounts by comparison with the amounts shown on the Association's books of account and related records.

AMOUNT OF LIQUID ASSETS

As pointed out in our prior report (see p. 19), at April 30, 1969, the Association held liquid assets--cash and marketable securities--amounting to \$1,120,056. The amounts of liquid assets on hand at November 30 and December 31, 1969, and the decreases in December 1969 are shown in the following table.

	November 30, 1969	December 31, 1969	Decrease
Cash in banks	\$ 40,846	\$ 11,923	\$28,923
Petty cash	100	100	
Marketable securities, at cost	<u>611,951</u>	<u>562,609</u>	<u>49,342</u>
Total	<u>\$652,897</u>	<u>\$574,632</u>	<u>\$78,265</u>

The marketable securities consisted of short-term commercial notes.

AMOUNT OF ACCRUED LIABILITIES
AND OTHER COMMITMENTS

The \$652,897 in liquid assets at November 30, 1969, were expected by the Association's administrator to be reduced by \$248,379 at January 31, 1970. Of this \$248,379, \$166,379 was for accrued liabilities and other commitments outstanding at November 30, 1969, as shown on the Association's records. Of the \$166,379, \$13,537 was for operating expenses and \$152,842 was for four appropriated-fund programs, under which financial assistance was provided to health science students, to residents and interns at the Cook County Hospital, and to the Cook County Hospital for department development and emergencies. The details of these liabilities and commitments are shown on schedule 3.

Association officials estimated that, in addition to the foregoing liabilities and commitments, about \$82,000 would be paid for operating expenses and for the appropriated-fund programs during December 1969 and January 1970.

Since further Medicare payments to the Association were suspended by Blue Shield in April 1969 and the matter of recovering overpayments has not yet been settled, the Association presently has no source of income, except interest on investments. Therefore, liquid assets available at November 30, 1969, would be the primary source of funds to cover operating expenses and the appropriated-fund programs.

In summary, of the \$652,897 in liquid assets at November 30, 1969, an estimated \$404,518 would remain at January 31, 1970, after making the above expenditures.

NATURE AND PURPOSE OF
ASSOCIATION EXPENDITURES
AFTER APRIL 30, 1969

During the 7-month period from May 1 through November 30, 1969, the Association expended about \$525,000. About \$146,000 was for operating expenses, about \$372,000 was for its programs in support of patient care and/or health education at the hospital and in the community, and the remaining \$7,000 was primarily for the acquisition of fixed assets.

An analysis of the expenditures for operating expenses is shown in schedule 1, and an analysis of the expenditures for the appropriated-fund programs is shown in schedule 2.

Association's operating expenses

About \$110,000, or about 75 percent, of the Association's operating expenses after April 30, 1969, represented salaries and related personal service costs. According to the Association's administrator, all salaries are either established or approved by the Association's board of directors. During the 7-month period, the number of full- or part-time employees on the Association's payroll was reduced from 63 to 29. The personnel reductions principally involved certain medical and dental students (administrative assistants) who, prior to Blue Shield's suspension of Medicare payments in April 1969, had been engaged in abstracting data from hospital patient medical records for the purpose of making Medicare billings.

Also included in the Association's operating expenses after April 30, 1969, was about \$8,200 in salaries and related costs for three persons employed at the Cook County Hospital who were under the direction of hospital personnel. According to the Association's administrator, these salary payments have been included as an Association operating expense because the duties of these three persons included providing assistance in implementing the Association's billing activities.

Association's appropriations
for patient care and/or
health education

From May 1 through November 30, 1969, the Association spent about \$372,000 from four appropriations for programs in support of patient care and/or health education at the Cook County Hospital and in the community.

These program appropriations and the amounts expended after April 30, 1969, are summarized as follows

<u>Appropriation title</u>	<u>Amount</u>
Scholarship and education	\$ 68,325
Department development	72,739
House staff development	122,200
Hospital director's emergency fund	<u>108,841</u>
	<u>\$372,105</u>

The nature and general purpose of the appropriations and related expenditures are as follows:

Scholarship and education

There have been two programs carried out under this appropriation. One program, for which \$52,325 was expended during the 7-month period ended November 30, 1969, was for fellowship grants to needy students in the Chicago area who were studying in the field of health sciences. We were advised by the Association's administrator that, as of November 30, 1969, there were 19 students covered under the fellowship program.

The second program, for which \$16,000 was expended during the 7-month period ended November 30, 1969, involved a lump-sum grant to the Cook County Hospital School of Nursing to provide cost-of-living stipends to needy students. This grant has been administered by the school of nursing.

Department development

This appropriation has provided financial assistance to the various departments at the Cook County Hospital. The specific requests for funds were initiated by the department chairmen. Of the \$72,739 spent from this appropriation for the 7-month period ended November 30, 1969, about \$44,200 was spent for equipment to be used at the Cook County Hospital. In addition, about \$9,200 was spent for financing the attendance at scientific meetings of members of the attending staff and the house staff (interns and residents).

House staff development

Of the \$122,200 expended from this appropriation from May 1 to November 30, 1969, about \$105,200 was for premiums for a group insurance policy for the hospital house staff and their dependents. This policy with the Equitable Life Assurance Society became effective on February 7, 1969. From February 7 to June 1, 1969, the plan provided (1) life insurance, accidental death and dismemberment coverage, weekly indemnity benefits, and hospital and medical benefits for the house staff and (2) hospital and medical benefits for their dependents. Effective June 1, 1969, the cost of hospital and medical insurance for members of the house staff was assumed by the Cook County Hospital, and the Association continued to finance all other coverage. The current monthly premium under this group insurance program approximates \$12,500.

In addition to the \$105,200 spent for the insurance program for the house staff, about \$8,200 was spent for the interns' and residents' banquet which was held in June 1969.

Hospital director's emergency fund

Of the \$108,800 expended under this appropriation from May 1 to November 30, 1969, about \$55,400 was for the salaries and salary supplements of various technical and clerical employees at the Cook County Hospital and about \$43,800 was for equipment to be used at the hospital.

Decisions as to the specific purposes for which the emergency funds would be used were the responsibility of the hospital director. Before expenditures could be made, however, the director was required to certify that Cook County funds were unavailable for those purposes and to obtain the concurrence of the Association's president that funds should be spent for those specific purposes.

ACTIONS TAKEN TO CONSERVE
ASSOCIATION'S ASSETS

Although Social Security, Blue Shield, and the Association took various actions to conserve the Association's assets, Social Security obtained only general assurances that such actions would be taken and did not obtain any written agreement from the Association to limit its expenditures to definite amounts until February 1970. Between May 1 and November 30, 1969, the Association expended about \$525,000 which, as previously discussed, was used for operating expenses and several appropriated-fund programs.

The actions to conserve the funds which the Association took in June, July, and August 1969 and in January 1970 consisted mainly of canceling fund appropriations, it allowed other appropriations to lapse. In June 1969, \$263,848 of the total \$1,033,807 appropriated for the fiscal year ending November 30, 1969, was canceled. An additional \$149,421 lapsed at the close of that same fiscal year as a result of the Association's actions in July and August 1969 to limit spending of appropriations for departmental development and as a result of actual expenditures being less than those estimated.

The cancellations and lapses reduced the total amount of appropriated funds from \$1,033,807 to \$620,538. Of the latter amount, the Association reported that \$501,338 was committed, in the form of approved specific requests for funds, prior to May 1969. Of the remaining amount, \$98,758 was committed between May 1 and August 31, 1969, and \$20,442 was committed between September 1 and November 30, 1969.

Although the Association's administrator advised us that the executive and finance committees felt obligated to fulfill the commitments to expend the \$620,538, the Association apparently was not legally bound to fulfill

all of them. For example, premiums for the insurance program for the house staff and their dependents were paid monthly, the program, therefore, could have been discontinued in any given month. Premiums from the start of this program in February through November 1969 totaled \$135,787, consisting of \$123,406 in cash expenditures and an accrued liability of \$12,381 for the November 1969 premium which was paid in December 1969.

Future spending by the Association was further restricted by the board of directors when, on January 12, 1970, the board authorized expenditures after January 31, 1970, for only essential operating expenses and house staff insurance premiums. Also, the board authorized limited expenditures for departmental development and the hospital director's emergency fund only through January 31, 1970.

Social Security and Blue Shield actions to require the Association to conserve its assets were taken at meetings with Association officials in September and November 1969. At those meetings, Social Security representatives sought assurances from representatives of the Association that they would take steps to preserve the Association's assets until the question of overpayment and the related recovery was finally agreed upon. In January 1970, Blue Shield wrote to the Association's administrator, stating that it recently had come to Social Security's attention that substantial funds had been expended and reminding him that the Association had given assurance in September 1969 that no funds would be disbursed other than for normal operating expenses.

Because of the substantial decrease in liquid assets between May 1 and November 30, 1969, in January 1970 Social Security initiated steps to control the Association's spending. These steps, taken through the Department of Justice, were intended to either regulate the Association's expenditures by having a Social Security official approve them in advance or, if the Association would not voluntarily agree to this arrangement, stop all further spending by impounding the funds through legal action. On February 2, 1970, the Association's board of directors approved a resolution authorizing its administrator to execute an agreement between the Association and the Department of Justice which would (1) limit the Association's expenditures for operating expenses to salaries, not to exceed \$10,000 a month, plus certain other essential expenses, (2) limit the Association's expenditures from its appropriations for patient care and/or health education to the February and March 1970 premiums (about \$25,000) on the house staff's group insurance policy, and (3) provide for the approval by a Social Security official of all expenditures.

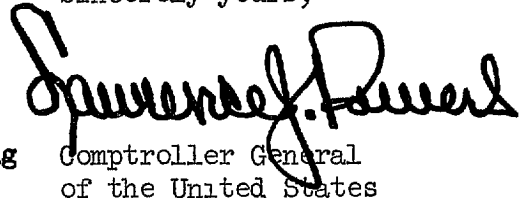
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In accordance with our agreement with Mr. Constantine, we are making copies of this report available to appropriate officials of

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the Social Security Administration and of the Department of Health, Education, and Welfare. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by the Committee concerning the contents of the report.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Lawrence J. Fowler". The signature is written in a cursive style with a large initial "L".

Acting Comptroller General
of the United States

Enclosures - 3

The Honorable Russell B. Long
Chairman, Committee on Finance
United States Senate

THE ASSOCIATED PHYSICIANS OF THE COOK COUNTY HOSPITAL
CHICAGO, ILLINOIS

STATEMENT OF OPERATING EXPENSES

FOR THE PERIOD MAY 1 TO NOVEMBER 30, 1969

NORMAL OPERATING EXPENSES:

Salaries:

Administrative	\$ 38,429
Accounting	7,730
Clerical	11,165
Administrative assistance	39,119
Guard and housekeeping	<u>3,740</u>

100,183

Payroll taxes	3,741
Pension fund expense	3,805
Payroll service costs	840
Group insurance	2,805
Workmen's compensation and general insurance	729
Office supplies and expense	3,233
Telephone	2,584
Meeting expense	613
Public relations	200
Accounting	4,039
Auditing	4,000
Legal	10,522
Local transportation	68
Canteen and miscellaneous	<u>550</u>

37,729

SPECIAL EXPENDITURES FOR COOK COUNTY HOSPITAL:

Medical record library assistants' salaries	6,620
Department assistant (division of medicine) salary	1,167
Payroll taxes on above salaries	374
Pension fund expense on above salaries	<u>58</u>

8,219

Total

\$146,131

THE ASSOCIATED PHYSICIANS OF THE COOK COUNTY HOSPITAL
CHICAGO, ILLINOIS

STATEMENT OF EXPENDITURES FOR APPROPRIATIONS
FOR THE PERIOD MAY 1 TO NOVEMBER 30, 1969

Appropriations and expense categories

SCHOLARSHIP AND EDUCATION:

Martin Luther King, Jr , fellowships	\$ 52,325
Cook County Hospital nurses' assistance fund	<u>16,000</u>
	<u>68,325</u>

DEPARTMENT DEVELOPMENT:

Books and journals	4,203
Attendance at scientific meetings (attending staff)	3,532
Attendance at scientific meetings (interns and residents)	5,635
Postgraduate courses	1,357
Visiting lecturers	376
Slides, illustrations, and teaching aids	6,719
Malpractice insurance	721
Professional dues	935
Equipment for hospital	44,183
Salary supplements for the Cook County Hospital staff	1,346
Recruitment of hospital staff	1,230
Office expense and supplies	1,369
Hospital supplies	985
Sundry	<u>148</u>
	<u>72,739</u>

HOUSE STAFF--COOK COUNTY HOSPITAL:

Interns' and residents' group hospitalization insurance	105,207
Interns' and residents' banquet	8,207
Interns' and residents' association:	
Association activities	876
Equipment for hospital	1,263
Salary supplements for the Cook County Hospital staff	4,277
Office expense and supplies	<u>2,370</u>
	<u>122,200</u>

COOK COUNTY HOSPITAL DIRECTOR'S EMERGENCY FUND:

Books and journals	60
Attendance at scientific meetings (attending staff)	1,539
Visiting lecturers	229
Slides, illustrations, and teaching aids	163
Equipment for hospital	43,813
Salary supplements for the Cook County Hospital staff	55,382
Recruitment of hospital staff	143
Office expense and supplies	70
Rental of radiation therapy equipment	6,414
Moving expense of hospital staff	948
Sundry	<u>80</u>
	<u>108,841</u>

Total	<u>\$372,105</u>
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THE ASSOCIATED PHYSICIANS OF THE COOK COUNTY HOSPITAL
CHICAGO, ILLINOIS

STATEMENT OF ACCOUNTS PAYABLE, ACCRUED EXPENSES, AND
UNPAID COMMITMENTS

AS OF NOVEMBER 30, 1969

ACCOUNTS PAYABLE AND ACCRUED EXPENSES FOR OPERATING
EXPENSES:

Pension fund expense	\$ 5,313
Legal	3,162
Payroll	1,150
Payroll taxes	2,119
Office expense	1,105
Group insurance	381
Telephone	203
Payroll service	80
Refund payable--Blue Shield	<u>24</u>
Total operating expenses	<u>\$ 13,537</u>

UNPAID COMMITMENTS FOR APPROPRIATIONS:

Scholarship and education:	
Martin Luther King, Jr., fellowships	<u>\$ 3,294</u>

House staff--Cook County Hospital:

Interns' and residents' group hospitalization insurance	12,381
Interns' and residents' association	<u>3,505</u>
	<u>15,886</u>

Department development--Cook County Hospital:

Diagnostic radiology	3,974
Anesthesiology	2,206
Medicine	32,838
Surgery	12,848
Obstetrics and gynecology	1,975
Pediatrics	<u>11,890</u>
	<u>65,731</u>

Cook County Hospital director's emergency fund	<u>67,931</u>
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Total appropriations	<u>\$152,842</u>
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TOTAL	<u>\$166,379</u>
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